

**REPORT TO THE  
JOINT LEGISLATIVE AUDIT  
AND REVIEW COMMISSION**

**FOR THE QUARTER  
JANUARY 1, 2002 TO MARCH 31, 2002**



## **- TABLE OF CONTENTS -**

<b>TRANSMITTAL LETTER .....</b>	<b>1</b>
 <b>EXECUTIVE SUMMARY</b>	
 <b>Department of Aviation .....</b>	<b>3</b>
<b>Department of Health .....</b>	<b>3</b>
<b>Department of Motor Vehicles.....</b>	<b>4</b>
<b>Department of Social Services.....</b>	<b>4</b>
<b>Department of Taxation Public-Private Partnership.....</b>	<b>5</b>
<b>Virginia Port Authority .....</b>	<b>5-6</b>
 <b>SUMMARY OF REPORTS ISSUED.....</b>	<b>7-11</b>

April 5, 2002

The Honorable Vincent F. Callahan, Jr., Chairman  
and  
Members, Joint Legislative Audit and Review Commission  
General Assembly Building  
Capitol Square  
Richmond, Virginia 23219

This transmits our quarterly summary of reports issued for the period January 1, 2002 through March 31, 2002.

The *Executive Summary* includes reports that may be of special interest to the members of the Commission. We have included a report in the summary for the sole purpose of bringing to your attention matters of significance. These summaries do not include all findings within a report or all reports with findings.

The *Summary of Reports Issued* lists all reports released during the quarter and shows reports that have audit findings.

We will be happy to provide you, at your request, any reports in their entirety. We welcome any comments concerning this report or its contents.

Sincerely,

Walter J. Kucharski  
Auditor of Public Accounts

WJK:aom

# **EXECUTIVE SUMMARY**

## **DEPARTMENT OF AVIATION**

The Department of Aviation and the Aviation Board have made significant commitments to the development of the Newport News-Williamsburg International Airport and the promotion of the Aviation World's Fair 2003, which could result in Aviation committing over \$15 million to the program over the next two years. If Aviation does not receive long-term financing, Aviation would no longer fund the infrastructure for the World's Fair event and would reduce its commitment to develop the infrastructure of the Newport News-Williamsburg International Airport. However, Aviation would still have to delay 10 capital projects at five other airports in the Commonwealth due to Aviation's restriction of the air carrier reliever discretionary funds for the Newport News-Williamsburg International Airport projects.

## **DEPARTMENT OF HEALTH**

The Office of Information Management (OIM) has made numerous efforts to improve the division's function and performance in the past year. OIM completed an information technology (IT) strategic plan to help determine and better articulate the agency's IT needs and direction. The strategic plan also initiated the creation of an annual OIM work plan, which will help determine the immediate priorities of the division. In addition, the Commissioner has hired a chief information officer (CIO) and moved steadily towards the implementation of its most complex and significant project, the web-based Virginia Information Systems – Integrated On-line Network (Web-VISION).

Although OIM has improved its performance, there are still deficiencies it must continue to address, such as the need for stronger controls over several critical systems. In addition, inadequate funding and lack of communication continues to cause delays in the implementation and management of information systems development (IS) projects. These issues continue to place OIM projects at risk of not meeting functionality or implementation objectives.

As described in our previous reports, the original VISION project had many deficiencies. Late in 1999, management decided that the recently implemented VISION system was obsolete, the data in the system was corrupt, and the system no longer met Health's functionality needs. Therefore, management decided to create the new Web-VISION by rewriting the VISION system into an internet-based application and restoring the integrity of the data. Web-VISION will be a patient-level system that manages client registration, patient visit documentation, immunizations, accounts receivable, community events, and maternity statistics.

The initial projected implementation date for Web-VISION was January 2001. Due to unanticipated accounts receivable module problems in fiscal year 2000, the implementation date was postponed to April 2002, 15 months later. Currently, the project team has completed the majority of the Web-VISION development, users are testing the application, and the project team is reviewing security. "Cleaning up" data is a time-consuming issue and implementation of the project will not occur until the project team can restore all data integrity. The implementation date is currently May 2002, but the project team anticipates further delays due to data conversion issues.

The previous items affect several of the detailed issues set out within this report. How management addresses these issues will affect the future direction of Health's information technology efforts.

## **DEPARTMENT OF MOTOR VEHICLES**

### **Operating Fund Deficit**

While Motor Vehicles reported a cash balance of \$1.4 million at June 30, 2001, its operating fund liabilities and obligations exceeded total assets causing an accrued operating fund deficit of \$2.3 million. This deficit exists despite the agency receiving additional appropriations to spend fees collected over forecasted amounts during the 2000 and 2001 fiscal years totaling \$13.7 and \$12.4 million, respectfully.

Motor Vehicles has used these excess funds to support initiatives and fund additional duties transferred to it. Many of the initiatives include technology upgrades requiring ongoing service and maintenance contracts that further obligate Motor Vehicles. The recent slowdown in general economic conditions will require management to closely monitor its spending levels and make important decisions that will reduce the current fund deficit.

Motor Vehicles has complied with the State's prompt pay performance standards for timely payment of invoices. However, we noted some delays in payments to other state agencies. These delays along with an increase in vendor liabilities allowed Motor Vehicles to maintain its current cash balance. Payments to other state agencies totaled \$14.8 million during the year and of this amount Motor Vehicles paid \$7.3 million more than 30 days late. Management should strive to improve their cash position in order to make these payments more timely.

## **DEPARTMENT OF SOCIAL SERVICES**

Overall, there are several recurring issues that contributed to the internal control findings discussed in this report. We found that communication between divisions needs improvement, which resulted in several of this report's internal control findings. We also found several instances where the Departments had adequate procedures; however, individual supervisors did not follow the procedures and were not holding staff accountable for not adhering to the procedures. The lack of qualified or trained staff attributed to some of the internal control findings. Finally, inadequate monitoring and supervising of benefit and service programs administered at the local level is also a contributing factor. On the next page is a listing of findings by Division and we include the detailed discussion of the internal control findings and recommendations in the section entitled "Agency Information and Internal Control And Compliance Findings."

### **STATUS REPORT ON THE ELECTRONIC BENEFITS TRANSFER PROJECT**

The Federal Government, as part of federal welfare reform legislation, is requiring that all states provide food stamp benefits to recipients using electronic methods by October 1, 2002. Electronic Benefits Transfer (EBT) is the common name for this benefit process. Although the Department began planning for this project in 1994, the original request for proposal (RFP) issued in January 1997 had to be canceled. The Department reissued the RFP in August 1999 and completed negotiations and finalized a contract for the development of an EBT system in January 2001.

Since then, the Department has made significant progress towards implementing EBT by the federal deadline. In October 2001, the Department received Federal approval to begin pilot operations of the EBT system in Fairfax and Warren counties. These counties completed the conversion to electronic benefits in November 2001. The Department completed the initial rollout to the Northern Virginia region in March 2002. The Department plans the statewide rollout of EBT be completed in July 2002.

## **DEPARTMENT OF TAXATION PUBLIC-PRIVATE PARTNERSHIP**

Generally, we believe the public-private partnership arrangement between the Department of Taxation and American Management Systems for the development of new systems for Taxation is achieving its goals. Additionally, the Partnership has developed and placed into production the funding streams necessary for completing the project.

A major component of the Partnership is Advantage Revenue, which replaces Taxation's existing STARS system. The Advantage Revenue general design document has experienced some delays that could affect the overall completion date of the project. We believe that properly completing this document is essential to the overall successful completion of the Partnership and Taxation will need to devote additional resources to its completion. Taxation has recognized that having a completed and detailed document before continuing with the project is a critical milestone to the project and spending the time making sure it is correct is an appropriate action with which we concur.

Our other major observation during this review involves the unique nature of the shared management responsibilities of the Partnership. We believe the nature of the shared responsibilities inherent in the Partnership makes it difficult to separate and identify which party causes project delays. As a result, we are concerned that, if ever necessary, Taxation might be unable to effectively determine if AMS' failure to perform caused any delays. In most contractual arrangements, the assignment of responsibilities and duties allows each party to measure and determine if they are fulfilling their part of the contract. This lack of clear delineation of responsibilities and duties might require Taxation to negotiate future contract changes for delays that Taxation did not cause.

To address this observation, Taxation use TRW to provide an independent report of the project status. Taxation could use TRW as an active participant in this process and have them provide the necessary information in their reports on these delays. This process should serve as the basis for Taxation's ability to assist in future contract negotiation with AMS should they be necessary.

Our review has identified an issue that is not a criticism of Taxation's management. The Partnership is one of several system projects recently undertaken by the Commonwealth that rely on either agency charge-backs or a new outside revenue stream to fund the project. The amount of the contract, project scope, and other general financial reviews are outside the normal budgetary and appropriation oversight process. As a result, the projects do not receive the same review and approval process as do other system development projects.

The General Assembly may wish to consider a policy change to the statewide budget process and require all nontraditionally-funded projects be part of the appropriation review and approval process. Enhanced revenue, which is additional tax revenue generated by the system, is funding this project; however, the Appropriations Act does not consider the size and scope of the project. Therefore, as project budget increases occur, there is not the same review process by the General Assembly.

## **VIRGINIA PORT AUTHORITY**

### **Provide Adequate Oversight of Capital Projects and Mitigate Possible Conflict of Interest**

The Port Authority awarded two sole source contracts for project management and general capital project consulting to the same engineering firm that already had several on-going capital project contracts.

Each contract totals \$1.5 million and has a two-year term. We believe the project management contract may provide a situation that presents a possible conflict of interest on the part of the vendor since the vendor will be supervising and reviewing its own work.

Because of an increased construction workload, management decided to outsource the engineering department function. Since the engineering firm was familiar with the Port Authority's operations and needs, management sole-sourced the project management and general consulting on capital projects to this firm in July 2000. In the past two years, the engineering firm received work under eight sole source contracts totaling over \$9 million.

The Port Authority staff does not have the expertise to oversee the contract and resolve any differences between the engineering firm acting as both the contractor and overseer of contracts. Compounding this problem is that management does not require detailed accounting of the hours the vendor charges to the various on-going capital projects.

We found where two vendor representatives charged hours to a harbor deepening project while at the same time charging hours as program managers for that same project. The lack of detailed billing information prevented us from determining the appropriateness of the bill.

Also, we noted that the Port Authority failed to document the reasons for increasing the price of three contracts with this same vendor. The increases ranged from \$25,000 to \$150,000 and effectively increased each contract by at least 100 percent without documenting adequate justification.

Management should implement effective oversight procedures to mitigate this contractual arrangement as soon as possible and should avoid similar situations in the future.



## **SUMMARY OF REPORTS ISSUED**

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The following reports on audit were released by this Office during the period January 1, 2002 through March 31, 2002. Those reports which included findings in the area of internal controls or compliance are indicated by an (\*) asterisk.

### **State Agencies and Institutions**

Commonwealth of Virginia Single Audit Report for the year ended June 30, 2001\*

### **Judicial Branch**

Office of the Executive Secretary of the Supreme Court of Virginia, Clerk of the Supreme Court, Clerk of the Court of Appeals, The Virginia Criminal Sentencing Commission, and The Judicial Inquiry and Review Commission for the period July 1, 1999 through June 30, 2001

### **Executive Departments**

#### **Administration**

Department of General Services for the year ended June 30, 2001\*

#### **Commerce and Trade**

Virginia Employment Commission for the year ended June 30, 2001\*  
Virginia Public Building Authority for the year ended June 30, 2001  
Virginia Public School Authority for the year ended June 30, 2001  
Virginia Tourism Authority for the year ended June 30, 2001

#### **Education**

State Council of Higher Education for Virginia for the period July 1, 2000 through December 31, 2001\*  
Virginia College Savings Plan for the year ended June 30, 2001\*

## **Colleges and Universities**

John Tyler Community College for the year ended June 30, 2001  
Radford University for the year ended June 30, 2001  
Radford University, Intercollegiate Athletic Programs for the year ended June 30, 2001  
Virginia Military Institute for the year ended June 30, 2001  
Virginia Military Institute, Intercollegiate Athletic Programs for the year ended June 30, 2001  
WNSB-FM Radio Station (A Public Telecommunications Entity Licensed to Norfolk State University) for the year ended June 30, 2001

## **Finance**

Agencies of the Secretary of Finance for the year ended June 30, 2001\*

## **Health and Human Resources**

Commonwealth Health Research Board for the year ended June 30, 2001  
Department for the Aging for the periods ending June 30, 2000 and June 30, 2001  
Department of Social Services for the year ended June 30, 2001\*  
Virginia Department of Health for the year ended June 30, 2001\*  
Virginia Tobacco Settlement Foundation for the year ended June 30, 2001

## **Public Safety**

Department of Emergency Management for the year ended June 30, 2001  
Department of Health Professions for the year ended June 30, 2001\*  
Wireless E-911 Services Board for the nine months ended June 30, 2001

## **Technology**

Department of Information Technology for the period July 1, 1999 through June 30, 2001

## **Transportation**

Department of Aviation for the years ended June 30, 2000 and 2001  
Department of Motor Vehicles for the year ended June 30, 2001\*  
Department of Rail and Public Transportation for the year ended June 30, 2001  
Department of Transportation for the year ended June 30, 2001\*  
Virginia Port Authority for the year ended June 30, 2001\*

## **Independent Agencies**

Virginia's A.L. Philpott Manufacturing Extension Partnership for the year ended  
June 30, 2001

## **Special Reports**

Review of the Department of Taxation Public-Private Partnership with American  
Management Systems dated March 20, 2002

Summary Report of Local Government Audit Findings: Enhanced 911 Special Tax Funds for  
the fiscal year 2001\*

## **Clerks of the Circuit Courts**

### **Cities:**

City of Bristol for the period October 1, 2000 through September 30, 2001\*  
City of Buena Vista for the period January 1, 2001 through December 31, 2001\*  
City of Chesapeake for the period January 1, 2001 through December 31, 2001  
City of Hampton for the period January 1, 2001 through December 31, 2001  
City of Hopewell for the period July 1, 2000 through September 30, 2001  
City of Lynchburg for the period January 1, 2001 through December 31, 2001  
City of Portsmouth for the period October 1, 2000 through September 30, 2001  
City of Roanoke for the period October 1, 2000 through September 30, 2001  
City of Salem for the period October 1, 2000 through September 30, 2001\*

### **Counties:**

County of Craig for the period October 1, 2000 through September 30, 2001  
County of Culpeper for the period October 1, 2000 through September 30, 2001  
County of Dinwiddie for the period July 1, 2000 through September 30, 2001\*  
County of Franklin for the period October 1, 2000 through September 30, 2001  
County of Halifax for the period January 1, 2001 through December 31, 2001  
County of Hanover for the period January 1, 2001 through December 31, 2001  
County of Henrico for the period January 1, 2001 through December 31, 2001  
County of Louisa for the period January 1, 2001 through December 31, 2001\*  
County of Madison for the period July 1, 2000 through September 30, 2001\*  
County of New Kent for the period October 1, 2000 through September 30, 2001  
County of Page for the period January 1, 2001 through December 31, 2001  
County of Pittsylvania for the period January 1, 2001 through December 31, 2001  
County of Powhatan for the period July 1, 2000 through June 30, 2001\*  
County of Rappahannock for the period October 1, 2000 through September 30, 2001  
County of Roanoke for the period October 1, 2000 through September 30, 2001\*  
County of Scott for the period January 1, 2001 through December 31, 2001

## **Clerks of the Circuit Courts**

### **Counties: (cont.)**

County of Shenandoah for the period October 1, 2000 through September 30, 2001

County of Smyth for the period January 1, 2001 through December 31, 2001

County of Tazewell for the period January 1, 2001 through December 31, 2001

County of Warren for the period October 1, 2000 through September 30, 2001\*

County of Washington for the period October 1, 2000 through September 30, 2001\*

County of Westmoreland for the period October 1, 2000 through September 30, 2001

County of Wise and City of Norton for the period January 1, 2001 through December 31, 2001

## **General Receivers**

### **Cities:**

City of Charlottesville for the period July 1, 2000 through June 30, 2001

### **Counties:**

County of Fairfax for the period July 1, 2000 through June 30, 2001